

Few Foreign Companies
Are Buying U.S. Newspapers

February 1990

Presstime

The Journal of the American Newspaper Publishers Association



TELEPHONE SERVICE
REAL ESTATE
GATEWAYS
COMPUTER LEASING
PROHIBITED BUSINESSES?
OVERSEAS SYSTEMS
DIRECTORIES, CATALOGS, MAGAZINES
CELLULAR PHONES
FINANCIAL SERVICES

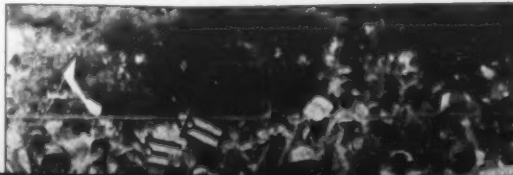
Publishers Eye Growing 'Baby' Bells

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20014



The Daily Gazette

INSIDE



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Volume 12, Number 2

Presstime magazine (ISSN 0194-3243) is published monthly by the American Newspaper Publishers Association, 11600 Sunrise Valley Drive, Reston, Va. 22091. Basic subscription rate of \$50 a year is included in members' dues. Non-member rate is \$100 domestic, additional overseas. Second-class postage paid at Reston, Va., and additional mailing offices. Copyright 1990 by ANPA. All rights reserved. Unsolicited articles and photos should be sent to the presstime editor. POSTMASTER: Send address changes to presstime, ANPA, Box 17407 Dulles Airport, Washington, D.C. 20041.



Presstime is a member of the Business Publications Audit of Circulation Inc.

presstime FEBRUARY 1990

CHAIRMAN'S CORNER

To edit for the 1990s, we must understand readers

As the last decade of the 20th century begins, men and women running the newsrooms of America can expect a daunting array of challenges in the 1990s:

- Rebuilding readership
- Attracting new subscribers and retaining loyal ones
- Living within tight budgets
- Leading talented and culturally diverse staffs.

What will it take for editors to meet the demands of newsroom leadership in the 1990s? Editors who will emerge as leaders in the newsrooms of tomorrow are those who know the world and understand their home communities. They will know when to celebrate success as well as when to focus on faults. They will create the vision necessary to attract and inspire culturally diverse staffs.

Reporters and photographers, too, will need to get closer to our readers. Timely access to news sources is not enough. Reaching our readers is equally, if not more, important. If we have a reputation for arrogance, it may be deserved. Readership is more likely to be built on service. Newspapers will reach their audiences more successfully if reader expectations are understood and satisfied.

Editors might well perform a regular "reality" check. Let's ask ourselves again and again whether our definition of news fits the expectations of our readers, particularly younger readers.

As we adjust to the future, we contemplate the "tailored" newspaper with its tighter focus, sharper image, easier access, better packaging, neater local concentration, multiple zoning and attention to special interests. But should we not remember, as we customize and focus on special interests, that newspapers across America are the general medium best at providing the glue that holds communities together?

Editing a daily newspaper to fit the 1990s demands the qualities of a Renaissance man or woman, the Little League coach and Socratic inquirer. Tomorrow's editors will continue to shape the soul of their newspapers and do it within departmental budgets. This means seeing the relationship between a good newspaper and the bottom line. It means working with new technology and old-fashioned ethics.

If we do our jobs well, we will have done our part—as Bart Giamatti once exhorted Yale College seniors—to keep America civil, cohesive and free.



William H. Cowles 3rd

Bill Cowles

William H. Cowles 3rd
 ANPA Chairman

presstime

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FEBRUARY 1990

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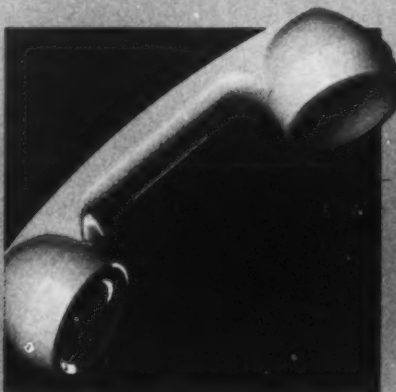
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'Baby' Bells

Newspapers Fear RBOCs May Become

BY LARRY KAHANER

Listen to the voice of conventional wisdom circa 1984: "Once Ma Bell is broken up, the local phone companies will be in serious trouble. Besides not getting their AT&T subsidy anymore, what can they do with plain old phone service anyway?"

Clearly, hindsight is 20-20. Six years after divestiture, each of the seven regional Bell operating companies, or RBOCs, ranks among the top 10 on Fortune magazine's annual list of utilities, with 1988 revenues ranging from \$8.5 billion at Southwestern Bell to \$13.6 billion at BellSouth. Total revenues for the companies, which encompass 22 local telephone companies and other businesses, exceed \$70 billion annually. By comparison, the 1,640 U.S. daily newspapers in the aggregate have advertising and circulation revenues of approximately \$40 billion a year.

The Bell logo is one of the most recognized company symbols in the world, and that's not surprising. The companies reach more than 80 percent of the United States population with phone service. (Independents like GTE and United Telecom serve the rest.)

What many people don't know is that since divestiture, the RBOCs have entered businesses as diverse as financial services, computer software, office equipment, real estate and publishing. Some ventures have succeeded beyond their dreams while others have failed miserably. In all, RBOC revenues from non-telephone business totaled about \$7 billion in 1988, that includes cellular mobile telephone sales and service.

Newspapers are especially concerned because the Bell companies have expressed great interest in evolving into information companies. The big question is: If the RBOCs were



to enter the information business fully—becoming both a provider and a deliverer—would their great financial and political strength threaten the viability of newspaper publishing?

The RBOCs say they're being denied their First Amendment rights and should be allowed the freedom to publish electronically or otherwise as they see fit. ANPA argues that the First Amendment guarantees a diversity of free expression and that diversity would be

subverted by allowing the RBOCs to enter the field as the provider of both the content and conduit of electronic information.

Lobbying has been and continues to be intense on both sides. The Bell regionals employ a small army of lobbyists at the national and state level. Although a dollar amount for their lobbying activities is not available, observers say it is significantly more than is being spent by the newspaper industry in promoting its telecommunications "diversity principle."

And that Bell lobbying kitty may be receiving a \$20-million-plus infusion of new chips, according to a recent report. Communications Week, an industry trade publication, reported Jan. 15 that the regional Bells may have earmarked that much in cash and other resources for its effort to get the divestiture restrictions lifted. The publication cites unnamed "Bell sources" as confirming that each of the seven companies had agreed to commit about \$3 million for the special "grass roots" effort.

None of the regional telephone companies would comment on the report.

All of the reported new Bell lobbying funds, Communications Week said, would be on top of what the Bells already have been spending in their continuing lobbying campaign.

Part of that campaign involves political action committee, or PAC, contributions to federal politicians. According to Federal Election Commission records, in 1988 alone, the seven regional Bells donated \$983,691 to congressional and presidential candidates—ranging from \$59,613 from US West to \$260,460 from Pacific Telesis. When similar PAC contributions are counted from four of Ameritech's local telephone companies and three of Bell Atlantic's, the total donated by the Bells to federal candidates in 1988 exceeded \$1.17 million.

ANPA, which lobbies the issue on behalf of newspapers, has



Kahaner covers the telecommunications industry for several trade publications. He covered the subject for Business Week magazine during the period of AT&T's divestiture. Prior to that, he was a founding editor of Communications Daily newsletter. He is the author of On the Line—The Men of MCI Who Took On AT&T, Risked Everything and Won, and co-author of The Phone Book—The Most Complete Guide to the Changing World of Telephones.

Grow Into Giants

Information Providers Over Their Own Lines

no PAC and makes no political contributions of any kind, according to Senior Vice President W. Terry Maguire.

In addition to lobbying the Congress, the Bells also keep up a steady flow of petitions to the U.S. District Court in Washington, D.C., for waivers from their constraints and to the Federal Communications Commission to take over jurisdiction of the matter in the hopes of being allowed into the now-forbidden areas.

For these and other purposes, each of the seven RBOCs maintains separate quarters in Washington. The average number of employees at each office is 21.

The RBOCs certainly have moved light years away from their pre-divestiture, phones-only mentality. "We need to diversify," asserts Gray Collins, Bell Atlantic vice president of external affairs, echoing the sentiments of many officials at the RBOCs. "But we'll always stay within the guidelines of the things we know. Some businesses naturally align themselves with our core business, our network."

It's certain that the Bell companies will continue to push for freedom to enter unregulated businesses now off-limits by judicial decree, the so-called Modified Final Judgment, or MFJ. These include services such as: manufacturing, long-distance calls, cable television—and, of course, providing information over the telephone lines they operate. To the RBOCs, the restrictions are unfair and unnecessary. "The MFJ restricts us from some lucrative areas," says Dave Hanneman, associate director for corporate planning at Southwestern Bell. "Why can't we have the freedoms that other companies enjoy?"

To understand the RBOCs' strategy for entering new businesses, especially information services, one must understand how the RBOCs have evolved, who they are, how they're organized, what they've done since divestiture, why they think the way they do.

THE ROOTS. Looking back on the country's pre-1984 phone system, it was all pretty simple. One company, American Telephone & Telegraph, ran everything. It owned the local phone companies that ran the wires to homes and offices, and it operated the long-distance service that interconnected the local phone companies. Although AT&T had a *de facto* monopoly in long distance, the company didn't have what regulators call a "natural monopoly." It was legally possible to have more than one long-distance company competing for business.

Several companies had tried—Raytheon and Westinghouse, for instance—but they failed because of AT&T's enormous strength and also because, according to the U.S. Justice Department, of its illegal, anti-competitive behavior.

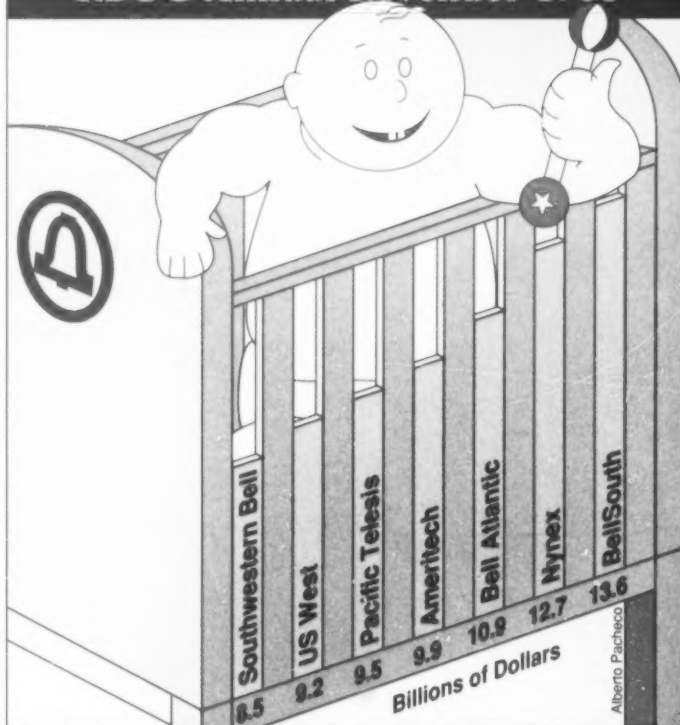
The government had tried to break up AT&T several times—to separate its natural monopoly business (the local phone

companies) from its *de facto* monopoly businesses (long-distance service and telephone equipment manufacturing). The hope was to stop alleged price fixing and cross subsidization.

In the early 1950s, trustbusters under President Harry S. Truman came close to breaking up Ma Bell. It was thwarted when AT&T agreed to manage nuclear bomb trigger-maker Sandia Labs, a federal laboratory, in exchange for keeping the telephone giant intact. It wasn't until another suit was filed, in 1974, that AT&T actually found itself in court defending against antitrust charges.

Halfway through the antitrust trial, AT&T gave up. It agreed to do to itself what the government had been trying to do to it for years. Playing the injured party, AT&T divested itself of its local monopoly business, claiming it had no other choice. Clearly it did—it could have continued the trial—but decided instead to rid itself of what it believed was a low-tech, not-very-exciting

RBOC Annual Revenues-1988



Special Report

component. The attitude was, "Hey, it's only phones." In fact, within the telecommunications community, people despairingly called it POTS: Plain Old Telephone Service.

So, the "Baby" Bells were born with a stigma. After all, how well could these companies survive, what kind of future could they have if AT&T, the largest company in the world, cast them off?

The Bell companies thought that way, too. Just prior to the breakup, many local executives called in their chits to move over to AT&T; jumping ship was more like it. AT&T was the reason many had joined the local phone companies in the first place: Pay your dues locally and work your way up to the corporate staff.

When the dust settled, few knew what to make of the local companies. People even questioned whether U.S. telephones would work anymore. However, the companies surprised just about everyone. They were being guided by executives who had seen the AT&T breakup as not a time to abandon ship but as a golden opportunity for business growth within the telecommunications industry. While some of the companies' officers still displayed the slow-moving, utility mentality (known in the business as the "bell-shaped head"), most upper-echelon people realized that they enjoyed one of the best run and most secure monopolies in the world, a virtual unending cash flow, and economic and political clout to go with it.

With money in their pockets and a need to show the financial and investor community that they weren't plain old phone companies, the Bell regionals began reaching into other areas, some that fit closely with their core business, like cellular phones and voice mail, and others that fit rather loosely, like real estate and retail computer stores.

There were restrictions, however. Because the antitrust trial didn't end in a usual jury finding, presiding U.S. District Judge Harold H. Greene was obligated to set down rules and regulations for all parties. The Modified Final Judgment has kept the Bell companies out of the total information business. While they may act as conduits for information providers, such as establishing "gateways"—a dial-up entry point for tapping databases—they may not own or produce any of the information transmitted over the lines they own.

Newspaper publishers have stated publicly many times that lifting these restrictions would make it possible for the Bell regionals to use their monopolistic power as Ma Bell did and crush their competitors. The newspaper industry insists that the public is better served by separating the providers of conduit and content. Several newspapers are already using RBOC gateways to provide information electronically to consumers. (See story, p. 26.)

THE OUTLOOK. From the standpoint of the federal government, the battle over information services is currently hottest in two arenas: the U.S. Court of Appeals for the District of Columbia Circuit, and Congress.

In the court, the RBOCs are asking that the restriction on offering information services (as well as on manufacturing) be lifted. They contend that the prohibition violates their First Amendment rights.

ANPA Senior Vice President W. Terry Maguire commented recently, "If we (newspapers) lose in the judicial arena, the contest over phone company control of content is over" [*presstime*, Jan. 1990, p. 48].

On Capitol Hill, legislative activity has increased since last April's introduction of a free-the-RBOCs bill by Reps. Al Swift (D-Wash.) and Tom Tauke (R-Iowa). While the sponsors said they

put the bill into the hopper just to get debate rolling, it inspired some other members of the House Commerce Committee's Telecommunications and Finance Subcommittee to begin drafting their own legislation to shift jurisdiction of the AT&T consent decree from Greene's court to the FCC, and to lift parts of the decree's restrictions.

A subcommittee draft bill may be released this month, possibly followed by hearings. However, most Congress watchers do not believe that in this election year members will allow themselves to get bogged down in something as controversial and complex as a major telecommunications measure.

Putting aside, for a moment, the question of how the contest ultimately will be resolved, some communications experts question why the RBOCs are even in it.

In a bracing speech to the U.S. Telephone Association Capital Recovery Seminar last fall, John F. McLaughlin, executive director of Harvard University's Program on Information Resources Policy, told telephone executives that there was not enough business around in the foreseeable future for them to make any money in the "prohibited businesses" of manufacturing, information services and long-distance service.

"I do not believe that Judge Greene envisioned himself as a grand protector of (RBOC) stockholders when he barred the (RBOCs) from these three areas, but the stockholders should bless him every day because he did," McLaughlin said.

Last August, though, Greene permitted the surviving AT&T to enter the information business. The seven-year divestiture agreement ban on its doing so expired then, and Greene no longer deemed the company a threat to publishers because the situation regarding AT&T had changed. ANPA did not oppose AT&T's entry.

How much longer Greene's court will deny the RBOCs that same flexibility is unknown, but clearly both sides will be watching AT&T's actions—and the court's responses, if any—for clues.

The newspaper industry also will be monitoring the RBOCs themselves. Despite their common heritage and common core business, the seven cannot be discussed as a single entity. Each has its own philosophy, strategies, organization and goals, as the following sketches make clear.



Newspapers' use of cellular phones adds to RBOC revenues.

The ABCs Of the RBOCs

AMERITECH™

This conservative outfit flourishes in the Rust Belt by sticking close to phone businesses.

Chairman and CEO: William L. Weiss

Headquarters: Chicago

1988 revenues: \$9.9 billion

1988 net income: \$1.2 billion

Organization and components:

I—Ameritech Bell Group

• Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell, Wisconsin Bell

• Ameritech Applied Technologies; provides information systems to Ameritech companies

• Ameritech Information Systems; provides network products, services to large business users

• Ameritech Services Inc.; provides technical, marketing, regulatory planning, product development for Ameritech companies.

II—Ameritech Enterprise Group

• Ameritech Credit Corp.; arranges financing for companies that lease products through Ameritech companies

• Ameritech Publishing Inc.; directories

• Tigon Corp.; voice mail

• Ameritech Mobile; cellular phones and paging

• Ameritech Audiotex Services—voice response system to deliver information to callers via touch-tone phone.

III—Ameritech Development Corp.—develops and invests in new technology.

Ameritech is perhaps the most disciplined, some say cautious, of the RBOCs so far as diversification is concerned. Situated in the heart of the Rust Belt, its interests lie very much within the framework of its phone-related businesses such as paging and cellular phones.

Some of Ameritech's conservatism may come from its \$217-million purchase of Applied Data Resources in January 1986. The company was supposed to supply Ameritech and its customers with software, but the plan failed and it was sold at a \$47-million loss.

However, signs are positive from its acquisition of Tigon Corp., a voice storage and forwarding company with a national presence. The move illustrates Ameritech's focus on voice services instead of text services, again a good fit with its core business. "Voice applications are a viable business now," says Dennis Carr, director, corporate strategy. "Videotex gets all the publicity and attention, but it's not yet a business."

To support a future foray into information services, Ameritech has consolidated some operations across its five separate Bell companies. A significant reorganization occurred when it merged all management information system departments of the local companies into Ameritech Applied Technologies. To handle all the unregulated businesses, it formed the Ameritech Enterprise Group.

Of all the RBOCs, Ameritech appears to be the most eager to form partnerships with information providers. "Our strategy is to establish an attractive environment for all the players," says Carr. Management has stated publicly that information gateways should



At Ameritech Services Laboratories, scientists conduct research that can lead to lucrative communications technologies.

be open to any and all information providers. "We expect to see a great variety of players," Carr adds.

CEO Weiss is an outspoken critic of the MFJ and has called many times for the RBOCs to be unleashed.

"We find it amusing," says company strategist Carr, "that people think we can or would roll over on newspapers. We're a network business, not an editorial business. I fully expect the newspaper people to migrate to the electronic form. The information providers of the future are those doing it on paper today."

Bell Atlantic

It's probably the most diversified of all the RBOCs, with real estate and computer interests.

Chairman and CEO: Raymond W. Smith

Headquarters: Philadelphia

1988 revenues: \$10.9 billion

1988 net income: \$1.3 billion

Organization and components:

I—Network services

• New Jersey Bell Telephone Co., Diamond State Telephone Co., Chesapeake and Potomac Telephone Co. of Washington, D.C., C&P Telephone Co. of Maryland, C&P Telephone Co. of Virginia, C&P Telephone Co. of West Virginia, Bell of Pennsylvania

• Bell Atlantic Network Services Inc.; provides staff, administrative and engineering support for phone companies.

II—Bell Atlantic Enterprises

• Bell Atlantic Capital Corp.; manages real estate investments of Bell Atlantic Properties

• Bell Atlantic Systems Integration Corp.; joint venture with American Management Systems, provides integrative solutions for multiple vendors

• Bell Atlantic Systems Leasing International Inc.; leases computer equipment

• Bell Atlantic TriCon Leasing Corp.; general business leasing

• Bell Atlantic Mobile Phone Systems Inc.; cellular mobile phone service

• Bell Atlantic Paging Inc.; paging services

Special Report

- Bell Atlantic Customer Services and BACS International Inc.; markets computer systems integration and software overseas

- Computer Maintenance and Materials Group: Camex-CPX Industries Inc., which offers repair services for Control Data equipment; Electronic Services Specialists Ltd., which offers parts and repair services for DEC equipment; Sorbus Inc., a computer maintenance company specializing in IBM products.

III—Bell Atlantic Investment Development Corp.

- Bell Atlantic International Inc.; manages overseas real estate
- Bell Atlantic Business Supplies Corp.; sells business supplies
- Bell Atlantic Directory Graphics; provides photo composition for directories

- Bell Atlantic Education Services Inc.; assists MIS managers to capitalize on information technologies

- Bell Atlantic Systems Inc.; sells, maintains telephone equipment on customer premises for business and government users

- Chesapeake Directory Sales Co.; partnership with GTE to sell C&P directory advertising

- Technology Concepts Inc.; develops software for databases

- Telecommunications Specialists Inc.; sells and services

telecommunications equipment.

IV—Bell Atlantic Investments Inc.

- Bell Atlantic Financial Services Inc.; internal financing

- Bell Atlantic Properties Inc.; invests in real estate for Bell Atlantic companies and others.

Bell Atlantic is probably the most diversified of all the RBOCs, directing much of its energies toward becoming a major player in real estate management, computer leasing and maintenance. Even so, in 1988 it unloaded a 16-store computer chain known as CompuShop. On the plus side, the acquisition of Sorbus Inc. brings to its corporate fold the largest independent computer maintenance company in the country.

Vice President Collins says that although Bell Atlantic appears to be the most diversified, it still limits itself to businesses that naturally align themselves with the core business.

With home offices in Philadelphia, the company's territory includes Washington, D.C., and suburbs—an area with more computers per consumer than anywhere else in the United States. The company currently operates two test gateways, one in Wash-

U.S. Phone Companies Have Global Reach

What the regional Bell operating companies can't do in their own backyards—manufacture equipment, provide information over their lines, and compete in long-distance services and cable television—they're doing or planning to do on foreign soil.

And by all accounts, the terrain is quite fertile.

Consider these recent activities by the RBOCs:

- Last year US West won the right to build Eastern Europe's first cellular phone system and to lay the world's longest fiber-optic cable across the Soviet Union.

- A consortium that includes the Pacific Telesis Group beat out five other RBOCs to capture the contract to provide the first private cellular system in West Germany.

- In January, the British government awarded licenses to both Pacific Telesis and US West to build three wireless telephone systems known as personal communication networks.

The other RBOCs have also ventured overseas. BellSouth, for example, is providing India's public telephone system with computer software and owns a majority stake in Australia's largest private paging and telephone-answering company. Southwestern Bell has installed pay phones in Britain and has interests in an

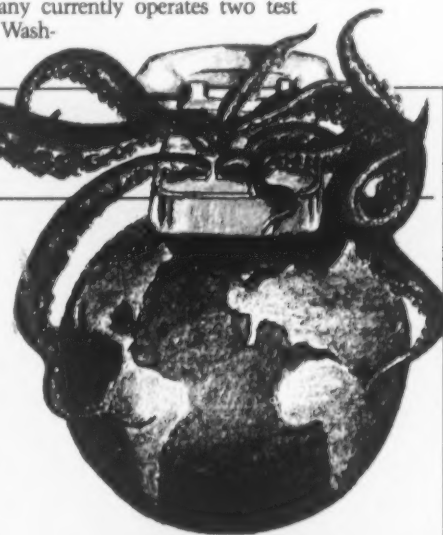
Israeli cable company. Bell Atlantic provides software systems for telephone companies in Italy and Spain and has opened an office in West Germany, where it operates a computer sales and maintenance company.

While these ventures represent just a tiny portion of the RBOCs' overall business—considerably less than 5 percent for most—the opportunity for growth overseas is seen as a potential Bell-ringer. In fact, industry analysts say the European market for mobile communications alone could top \$9 billion annually by 1992—the year when the nations of the European Community will take a major step toward economic unification.

Martyn Roetter, a senior consultant who specializes in telecommunications for the Arthur D. Little Inc., affirms that one of the most appealing reasons for the RBOCs to compete overseas is to gain experience in enterprises from which they are barred at home.

This training will stand the RBOCs in good stead, Roetter says, should Congress or the judiciary accede to the RBOCs' wishes and lift the line-of-business restrictions imposed under the Modified Final Judgment.

Overseas ventures are also appealing, he says, because the RBOCs are not limited by the regulated rate of return under which they operate in the



United States. "The primary reason you look elsewhere is if you see limits to growth in your existing markets," Roetter notes.

Should U.S. newspaper publishers look upon the Bell companies' overseas ventures as worrisome?

"To the extent this gives the RBOCs additional marketing knowledge and technical capability, these moves should be of concern to newspapers," says Uzal H. Martz, president and publisher of the Pottsville (Pa.) Republican and chairman of the International Task Force of the ANPA Telecommunications Committee.

Martz says "U.S. newspapers ought to be exploring opportunities—and some are—to gain similar knowledge through the offering of services at home and abroad."

—Christine Reid Veronis

ington, the other in Philadelphia. The company's belief is that gateways are a subscriber service for which customers sign up and pay a small users' fee.

Like other RBOC executives, Collins expresses concern that the MFJ does more than keep his company out of new business. "Our primary concern is that the restrictions prevent technology from being deployed efficiently," he says.

For instance, the MFJ prohibits the Bell companies from sending information among their various Local Access Transport Areas—local phone areas, usually aligned with Metropolitan Statistical Areas. This has prevented Bell Atlantic from routing gateways in an efficient manner, Collins says, adding, "We can't even use our computer to direct it outside our gateways."

Thomas Bolger, the CEO who brought the telephone companies that now comprise Bell Atlantic through divestiture, retired a year ago. His successor, former Chief Operating Officer Smith, is considered extremely tough-minded.

BELLSOUTH

The biggest, most profitable 'baby' is a fiber-optic pioneer and Yellow Pages leader.

Chairman and CEO: John L. Clendenin

Headquarters: Atlanta

1988 revenues: \$13.6 billion

1988 net income: \$1.7 billion

Organization and components:

I—Telephone subsidiaries

- South Central Telephone Co. (Alabama, Kentucky, Louisiana, Mississippi, Tennessee); Southern Bell Telephone and Telegraph Co. (Florida, Georgia, North Carolina, South Carolina)

- BellSouth Services; provides administrative, information and staff support for phone companies.

II—BellSouth Enterprises Inc.

- Advertising and Publishing: BellSouth Advertising & Publishing, which markets and publishes telephone directory advertising; L.M. Berry and Co., which handles national Yellow Pages advertising sales; BellSouth Information Systems, which provides computer products and services to BellSouth's non-regulated companies and affiliates; Stevens Graphics (partly owned), which publishes telephone directories, catalogs and magazines; TechSOUTH Inc. (partly owned), which provides computer-based publishing services and products

- Communications Systems: BellSouth Communications Systems Inc., which markets customers' on-premises equipment to national accounts outside of the BellSouth area; Dataserv Inc. and Dataserv International, which are engaged in computer leasing and maintenance; BellSouth Government Systems Inc., which



Ameritech Publishing's graphics center works on advertisements for Yellow Pages directories.

markets BellSouth products and services to the federal government

- Marketing and Business Development: BellSouth Ventures Corp., which invests in venture capital funds and individual companies in emerging technologies; BellSouth Advanced Networks Inc., which markets enhanced services provided by Southern Bell and South Central Bell; BellSouth International Inc., which manages BellSouth activities outside the United States

- Mobile Systems: BellSouth Mobility Inc., which constructs and operates mobile phone systems in the southeastern United States; American Cellular Communications Corp., which provides mobile and paging services in non-BellSouth U.S. areas; Mobile Communications Corp. of America, a recently acquired mobile and paging company

- Corporate Affairs: Sunlink Corp, a real estate company, including interior design and facility planning; BellSouth Educational Services, which provides educational products; Telesensor, which provides integrated systems for large buildings, convention centers and hotels

- Finance: BellSouth Financial Services Corp., which provides financing for BellSouth companies under BellSouth Enterprises.

III—BellSouth Capital Funding Corp.—provides financing for other BellSouth companies.

BellSouth, the biggest "Baby" Bell, makes the most profit and

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harbors the most assets. Its basic network is the most technologically advanced in the country, with nearly 95 percent of its central offices employing electronic switches. Almost 98 percent of BellSouth's major trunk lines are fiber optic, and it was the first to bring that fiber directly into customers' homes.

In addition, geography is on its side: BellSouth takes in the booming Sun Belt states of Florida, Georgia and North Carolina—areas to which many northern companies are relocating.

Of all the RBOCs, BellSouth sticks closest to its core phone business. Its acquisition of Mobile Communications Corp. of America makes it the country's third largest cellular-phone company with customers in the lucrative markets of Miami, Los Angeles, Atlanta and Houston.

It is the largest publisher of Yellow Pages, with revenues exceeding \$1 billion. And with its acquisition of directory marketing firm L.M. Berry, BellSouth has become the most powerful directory force in the nation. It purchased Berry, in part, because it was forced by the MFJ agreement to sell its interest in CompuServ's "electronic mall" for shopping.

Among the RBOCs, BellSouth has the largest Washington lobby. (CEO Clendenin is the current chairman of the U.S. Chamber of Commerce.) And in 1988 it aligned with Bell Atlantic and petitioned Judge Greene's court for permission to allow Berry to sell electronic Yellow Pages. Greene denied the request, but his decision is being appealed.

BellSouth was the first RBOC to launch a gateway service: Transtext Universal Gateway, simply an entry point for users with no enhancements. The Atlanta Journal and The Atlanta Constitution, two of the information providers for the gateway, have accused BellSouth of moving too slowly on its introduction, failing to promote it and not providing market statistics. BellSouth has countered by saying it informed information providers of its intent to limit the scope of service until testing and evaluation.

NYNEX

The least technologically advanced RBOC has the highest shareholder return.

Chairman and CEO: William C. Ferguson

Headquarters: White Plains, N.Y.

1988 revenues: \$12.7 billion

1988 net income: \$1.3 billion

Organization and components:

I—Telephone operating companies—New England Telephone Co., New York Telephone Co.

II—Nynex Business Information Systems Co.—reseller of microcomputers, software and value-added services

III—Nynex Information Resources Co.—publishes directories and provides telemarketing services

IV—Nynex International Co.—markets products and services outside the United States

V—Nynex Materiel Enterprises Co.—provides procurement support services for Nynex companies

VI—Nynex Mobile Communications Co.—provides mobile phone services

VII—Nynex Properties Co.—provides real estate services for Nynex and its subsidiaries

VIII—Nynex Service Co.—provides Nynex telephone companies with marketing, technical planning, regulatory planning and computer support services

IX—Nynex Systems Marketing—sells telecommunications and information systems and provides information solutions

X—Nynex Credit Co.—offers financial services to business customers who purchase products from Nynex

XI—Nynex Information Solutions Group—provides software support to Nynex customers.

Nynex is the least technically advanced of the RBOCs and has been investing the most heavily in modernization—some \$11.3 billion since divestiture. Fortunately for it, the company's realm contains the largest number of business phones, 10 million, of all the companies. Its ability to persuade regulators that local phone service should be paid on a time-usage basis (local measured service) instead of a flat monthly fee has allowed it to rack up the second highest profit growth of the RBOCs and the highest rate of return to shareholders.

More than any of the other Bell regionals, Nynex sees much of its future in overseas business. That's mainly due to the slow growth predicted for the Northeast and the fact that New York City generated more overseas telephone traffic than any other city.

In 1985, Nynex established Hello Yellow, a talking Yellow Pages service in Albany, N.Y. While it viewed the service as merely an electronic version of its printed Yellow Pages, the Justice Department shut it down, citing violation of the MFJ. Nynex apparently learned a lot from the test as it does from its research and development projects. Although the MFJ prohibits entry into some areas, it allows research and development in those same fields. Nynex takes advantage of that with cutting-edge work in the area of voice recognition and artificial intelligence.

The company in 1986 joined with Citicorp and RCA to identify business opportunities in videotex. The joint venture reportedly spent several hundred million dollars on research before the partnership ended in 1988.

Nynex now operates two information services, with a third slated for Boston this month. The Burlington, Vt., Info-Look gateway employs about 30 information providers offering nearly 100 services. Launched in December 1988, it offers two on-line tables of contents—one alphabetical, the other by product category. The arrangement is tailored for residential users, who pay 8 cents per minute for the gateway, 5 cents per minute for the local measured telephone service, and 5 to 20 cents for the information service.

The most important features include Vermont business news, real estate listings and a job hunters' guide. The Burlington Free Press provides local news and classifieds prior to print publication [prestime, Jan. 1989, p. 47]. USA Today also provides stories.

Nynex launched the other Info-Look gateway in New York City last April; it is almost identical to the one in Burlington. News services include American Wire-N.Y. Edition, which features classified ads, jobs and a consumer entertainment service from Baseline Inc. Newsday offers Newsday Online, piggybacking onto its own electronic bulletin board.

Ellen Powley, director of product development, says Nynex continues to learn about the electronic information business with each gateway it adds. So far, she says, educational information has proved the most popular.

"Our strategy is that our gateways are basic services," Powley says, "and we make our money from network usage." She notes that Nynex will consider information provider partnerships with newspapers. "It depends upon the partner, of course. We've been very pleased working with Newsday."

In December, Nynex signed an agreement to become the first RBOC to provide network and computer service for Prodigy, the videotex venture of Sears, Roebuck and Co. and IBM.

Nynex will build and own computer sites to provide local database storage of the most popular information. According to company officials, local storage is crucial to delivering service as economically as possible.

PACIFIC TELESIS

Poor performer turns around in the strong California-driven market, but it is bypassed by many large phone users.

Chairman and CEO: Sam L. Ginn

Headquarters: San Francisco

1988 revenues: \$9.5 billion

1988 net income: \$1.2 billion

Organization and components:

I—Bell companies

• Pacific Bell, Nevada Bell, Pacific Bell Directory.

II—PacTel Corp.

• PacTel Cellular

• PacTel Paging

III—PacTel Telecommunications Companies—PacTel Business Systems, which markets phone and microcomputer systems

IV—PacTel Finance—provides lease financing services for PacTel and others

V—Pacific Telesis International—manages and operates overseas communications systems

VI—PacTel Properties—real estate

VII—Meridian Systems—joint venture with Northern Telecom, sells and services PBX and voice/data networks

VIII—Teletrac—joint venture with North American Teletrac; provides radio location networks in the United States.

Pacific Bell was one of the companies that AT&T wanted to jettison. It was the worst performer and had the highest debt load among the Bells. After divestiture, however, intelligent management led by then-CEO Donald Guinn turned the company around, especially in the unregulated businesses that contribute 10 percent of total revenue. New CEO Ginn is considered extremely competitive.

Pacific Telesis, which encompasses California and Nevada (98 percent of its customers are in California), enjoys many fortunes. California has the highest per capita income of any state and is the most populous state, with growth through 1995 expected to be 13 percent—twice the national rate.

California has the highest penetration of computers in households (as opposed to Bell Atlantic's highest computer penetration per phone user), an estimated 2 million. The state also has the nation's highest concentration of mobile phones.

On the negative side, PacTel suffers more than other RBOCs from bypass, a practice employed by large phone users to ignore the local phone company and connect directly to a long-distance carrier. Eleven of its top 20 corporate customers have elected to go the bypass route, a loss estimated at about \$360 million per year.

The company designed and tested Project Victoria, a \$26-million audiotex and videotex service trial that employed Dow Jones & Co. and Chronicle Information Services as information providers. It also participated in a consortium that developed the gateway technology used by BellSouth, Bell Atlantic and Nynex.

PacTel had been expected to begin a trial of California Online, a videotex gateway in the San Francisco Bay area, this year. However, it dropped plans last October because of insufficient potential customers and information providers. In a letter to prospective information providers, Roger Conrad, director of voice information and gateway services, said PacTel did not want to test a service "that does not have a high probability of becoming a successful commercial offering."

Following Ameritech's lead, PacTel has decided to concentrate its information efforts in the audiotex arena. California has more 976 numbers than any other state, and PacTel has gleaned great

experience in voice services. Last June, the company began testing Smart Talk, a voice ad service; after dialing the main number, customers use a four-digit number to hear information about a company, product or service.

PacTel also is aggressively pursuing cable-TV partnerships, several of which have fallen through—including the attempted purchase of Rogers Communications in partnership with United Artists. It has bid to purchase 68 percent of Chicago's Group W cable franchise, but that requires a waiver from Judge Greene, who in mid-January was still studying the request.



Southwestern Bell

It specializes in the directory publishing business, but like its region, it's slumping.

Chairman and CEO: Edward E. Whitacre Jr.

Headquarters: St. Louis

1988 revenues: \$8.5 billion

1988 net income: \$1.1 billion

Organization and components:

I—Southwestern Bell Telephone (Arkansas, Kansas, Missouri, Oklahoma and Texas)

II—Southwestern Bell Publications—publishes directories and other publications

III—Southwestern Bell Mobile Systems—provides mobile phone services

IV—Southwestern Bell Telecom—markets telecommunications systems and products to consumers and businesses

V—Metromedia Paging Services

VI—Gulf Printing Co.—prints directories and other publications for commercial accounts

VII—SBC Technology Resources Inc.—provides technology planning and assessment for SB subsidiaries

• SBC Corporate Services Inc.; provides services for internal operations

• SBC Administrative Services Inc.; provides services for internal operations

• Southwestern Bell Capital Corp.; obtains financing for non-telephone subsidiaries

• SBC Asset Management Inc.; real estate.

While it was the fastest-growing company at divestiture, Southwestern Bell has since slumped, mainly because it is situated in a region that has experienced economic woes in recent years. Half of its phone revenue comes from Texas, which has been especially hard-hit. In addition, the company spent large sums of money aimed at becoming a national communications company, especially in the area of cellular telephones, paging services and Yellow Pages. Off to a slow start with The One Book in the Washington, D.C., area, it shut down Silver Pages—aimed at senior citizens—altogether. Overall, its directory advertising revenue in 1988 was 8.5 percent of total revenue, down from 9.1 the previous year.

The company has a history of publishing. Just as the current Ameritech area (more specifically Illinois Bell) was often an AT&T test bed for new technology, Southwestern Bell Telephone was regularly used by Ma Bell to test new publishing techniques. Faced with stiff directory competition and a maturing market, it is now emphasizing marketing consultation instead of sales. The company can be expected to offer product enhancements while searching for new publishing products besides directories. For

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instance, it published the official Seoul Olympics Guidebook, and a subsidiary won the federal contract to mail the surgeon general's AIDS brochure to every U.S. household.

"There are good opportunities associated with the directory business," says company executive Hanneman. "That's where our know-how is."

The company began two gateway tests in Houston last spring. The audio service is called Quickvoice, the videotex is called Sourceline [presstime, May 1989, p. 49]. Southwestern Bell doesn't charge users for access. It takes a fee for billing information providers and receives payment through the user's phone bill. "We're still trying to find the best way to price," says Hanneman. "After all, it's still a test."

Southwestern Bell is looking for volume usage, and more than 150 sources offer information through the gateway. USA Today, the Houston Chronicle and the Chicago Tribune provide services through a third party. Home banking, shopping, classified ads, sports bulletins and travel information are also available.

Hanneman says that unless the MFJ restrictions are lifted, the gateway business will be stifled. "We probably can't make the gateway business all it can be because of the MFJ. I'm not just talking about being an information provider. There's a lot more we can't do because of the restrictions," he says. "The ANPA and others have concerns about anticompetitive behavior." Yet "there's so much scrutiny now. If we got further into the information business, there would be even more."

The previous chairman and CEO, Zane E. Barnes, recently

retired, with Whitacre taking his place the first of this year. Whitacre has beliefs similar to Barnes and is expected to emphasize the unregulated parts of Southwestern Bell's business. He is considered a steady and deliberate leader.

USWEST

Emphasis is on research and development, and bold steps beyond traditional services.

Chairman and CEO: Jack A. MacAllister

Headquarters: Denver

1988 revenues: \$9.2 billion

1988 net income: \$1.1 billion

Organization and components:

I—US West Communications—Mountain Bell, Northwestern Bell, Pacific Northwest Bell

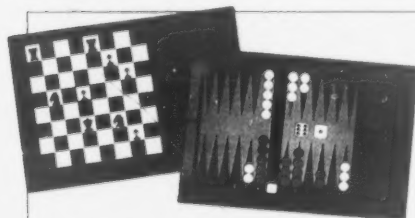
II—US West NewVector Group Inc.—provides mobile communications and paging

III—US West Marketing Resources Group—publishes telephone directories

IV—Data Systems Division—Applied Communications Inc.; supplies software for financial transactions

V—US West Information Technology Group—US West Advanced Technologies Inc.; new product development

VI—US West Business Resources Inc.—handles procurement



Not all of the information newspapers deliver is winding up on the front porch. Increasingly, it's coming over the phone lines.

In the last decade, motivated by a desire to gain experience in emerging telephone-based technologies, newspapers began experimenting with videotex, its less complicated cousin audiotex and facsimile publications.

Consumer acceptance of all these services hasn't been instantaneous or overwhelming. But they are catching on, according to the editors and marketing directors who run them.

Consider the experience of the Fort Worth Star-Telegram, which launched a videotex service known as StarText in 1982. At the time, says Marketing Director Gerry J. Barker, "electronic publishing was a hot topic."

The Star-Telegram teamed up with Tandy Corp. to offer an electronic edition of the paper. A year later, the Star-Telegram severed its relationship with Tandy and went it alone.

Today more than 4,000 personal computer owners pay \$9.95 a month for unlimited access to the paper's classifieds, news stories, *Grolier's Encyclopedia* and community data.

StarText began making a profit in 1986, when the service had just 2,000 subscribers, Barker says. At start-up, it had just three full-time staff members; today StarText employs seven full-timers and four part-timers.

Pioneering videotex ventures of other media firms weren't as sweet, however.

Before bailing out in the mid-1980s, Times Mirror's Gateway and Knight-Ridder's Viewtron services lost millions of dollars. Their experiences left some other newspaper companies gun-shy.

Timothy P. Keyser, director of business development for the Omaha World-Herald Co., figures 12,000 to 15,000 customers will have to sign up for the Omaha Citinet videotex service before the venture, which was launched July 1 in partnership with American Citinet of Boston, becomes profitable.

That could take up to three years, according to US West, which operates the Community Link gateway on which the World-Herald Co. offers Citinet.

Clearly, selling videotex to consumers presents quite a challenge. "It's like the

first coming of the electric knife—we have to create the need," Keyser says.

Newspaper executives say one of the main hindrances to consumer acceptance is the pay-per-minute pricing strategies the RBOCs charge for the use of gateways. "When you turn the meter on," says Keyser, "you turn people off."

With Citinet, the World-Herald Co. offers unlimited access to electronic mail and electronic chat lines—including one for cat lovers known as "Furball Corner"—for \$3.95 a month.

Another World-Herald Co. videotex service, "Electronic Edition," consists of information from the newspaper. To encourage use of that 3-month-old service, the newspaper company is absorbing US West's 5-cents-per-minute gateway fee.

"We believe this is an intelligent move," Keyser says. "You need to introduce new technology in an affordable manner to see if people will respond."

Gannett New Media Services has had good response to one of its videotex services, USA Today Sports Center, which gives subscribers access to sports news stories as they become available. The Sports Center also features electronic baseball, chess and backgammon. [See photos.]

Even more popular with consumers are audiotex voice-information services, to

More Newspapers Are Offering Customer

for all US West companies

VII—US West Financial Services Inc.—provides equipment leasing and sales financing to US West companies and others

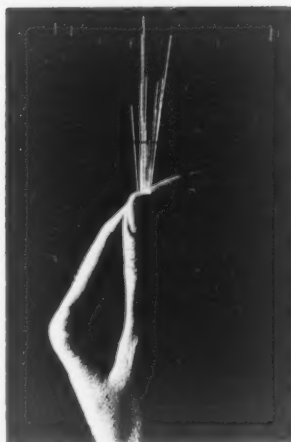
VIII—US West Ventures Group—manages start-up ventures for subsidiaries

IX—US West International—handles overseas operations.

Like Ameritech and Southwestern Bell, US West suffers from regional economic woes. It is also hampered by its vast area—14 states, much of the territory open ranges—which relates to the highest cost of maintaining the core telephone business of any RBOC. Of all the companies, it has ventured the furthest from phone business, mainly as a way to attract investors and serve its shareholders.

As an indication of its forward thinking, US West was the first spun-off Bell company to decide not to use the Bell name. It wanted to show investors that it wouldn't think like a "bell-shaped head." That attitude is embodied in Chairman MacAllister, who is considered an industry maverick always open to new ideas and, more importantly, to new partnerships and deals. He is considered a skillful negotiator.

One of the company's coups was to create the Applied Communications unit, which took US West's expertise in building management and operating networks and turned it into a



Fiber optics are the key to high-tech services.

financial giant. Applied Communications developed automated teller and point-of-sale network software that is licensed and used in more than half of the world's electronic funds transfers.

US West places great emphasis on R&D. Its Advanced Technology Lab has 1,500 employees, and in 1988 ground was broken for a new \$45-million facility in Boulder, Colo. It is scheduled to be completed next year.

Despite its view of the information age, US West has come late to on-line text services. A trial dubbed Community Link has begun in Omaha (partly because of Nebraska's deregulation atmosphere), which will offer a no-frills gateway. Information providers will set

the price, starting at about 5 cents per minute.

According to US West Communications Vice President and General Manager Linda Laskowski, the company purposely took its time before beginning Community Link. "Our approach is to reach a broad audience with videotex services," she says. About 300 services are on line, including an "electronic version" of the Omaha World Herald [presstime, Dec. 1988, p. 42].

Part of the strategy includes low-end terminals similar to those offered by Minitel in France. "We also have to appeal to the PC user," notes Laskowski, "which is why we give free software to PC users." □

Telephone-based Information Services

which access is gained by a touch-tone phone. Newspapers began experimenting with audiotex after the early videotex ventures. Today more than 40 papers operate voice services, providing such prerecorded information as horoscopes, soap opera updates, stock quotes and weather reports. Also quite popular—and profitable—are the voice mailboxes many papers offer to both advertisers and readers.

At The Palm Beach Post of West Palm Beach, Fla., golfers can find out which club to use to get out of a bunker by calling PostLine. In Peoria, users of the Journal Star's TelEdition can keep the bloom in their cheeks by following the advice passed along on the health line.

Most of these services are advertising-supported. Before getting the information they covet, consumers hear advertisements that last 15 seconds or longer.

The majority of the voice services operated by newspapers are not profitable, though. A recent ANPA survey of 18 newspapers with voice projects found that only three of them were making money.

One of the profitable services is InfoTel, sponsored by The Morning Call of Allentown, Pa. Geri Kotz, the newspaper's classified advertising manager, says she is not certain why InfoTel has been successful virtually from the start.

She speculates, however, that it may be because InfoTel is handled by marketers rather than by telecommunications specialists, as is true at most newspapers.

Kotz says this organizational structure made it easier to sell the ad staff on the service. "We all bought into it"—that is, the salespeople did not have to be cajoled into selling electronic ads, she explains.

Judging by the call volume many newspapers' voice services are receiving, consumers have very little trouble understanding how they work. Last year The Atlanta Journal and The Atlanta Constitution logged some 5 million calls to their telephone hotlines. And Chris Jennewein, who directs the newspapers' information services, expects volume will double this year.

Also finding quick acceptance are the toll-free 800 services [presstime, Jan. 1990, p. 14] and their for-fee 900 counterparts. Readers of the Atlanta papers, for example, can get a jump on the next day's classifieds by dialing a 900 number.

How well facsimile editions of newspapers will catch on is less clear. The Hartford Courant, which in April 1989 became the first major daily in the modern era to launch a facsimile edition, continues to tinker with the form. In January, for example, it began selling strip ads for the

bottom of the one-page summary, which reaches subscribers by 4:30 p.m.

Bill A. Williams, assistant to the publisher, says the paper has also had quite a time figuring how to price the service. When FaxPaper was introduced, subscriptions cost \$2,500 a year. Today, the rate is \$600.

The Globe and Mail of Toronto faced similar pricing questions when it introduced a four-page fax edition in January. To cover transmission costs, the paper created a monthly pricing scheme that ranges from \$75 for Canadian customers to \$700 for those in China.

Rick A. Noble, general manager of Info Globe, figures the fax service will break even when 75 subscriptions are sold.

Other recent or soon-to-be entrants to the field include The New York Times, the Los Angeles Times and The Knoxville (Tenn.) News-Sentinel.

StarText's Barker says that as more companies begin to compete in the videotex, audiotex and fax markets, "the winner will be the one who can deliver the content consumers want in the most easily accessible format." Because they are so content-intensive, newspapers seem ideally positioned to become leaders in the electronic information field, he says.

—Christine Reid Veronis